

DPD-1306-60

26 February 1960

MEMORANDUM FOR : Chief, Development Branch, DPD
ATTENTION : Mr. John Parangosky
SUBJECT : Overhead at Perkin-Elmer

1. Several meetings have been held with both the Contractor and DPD personnel to discuss the Contractor's proposal on the ORCART program. The area of General and Administrative expense has been given exhaustive consideration.

2. The following statements are pertinent to such a review:

a. It is Government policy to accept a contractor's established accounting system if it is not inequitable. Perkin-Elmer's system has been approved by the Air Force.

b. When a contractor is performing a large contract for a customer and it is an independent operation completely separate from the contractor's other activities, it often is possible to establish a separate cost center. We originally approached the contractor on this basis but after investigations discovered that although a portion of our work would be performed separately (in the Post Road plant), the contractor would also use most of its other facilities. In order to use a separate overhead rate, it would be necessary, for example, to provide duplicate facilities within the Post Road plant instead of using the contractor's optical and mechanical shop equipment. We also use the accounting, purchasing and other departments.

3. There is an inequity which we have recognized with our contractors for some time. This relates to certain security costs or items such as automobile rental to expedite transportation between plants. These items would normally be included in the overhead, and we do pick up a proportion of these overhead charges to other customers. However, we must recognize in transportation, for example, that we would make use of both the cars charged direct and the normal transportation pool charged into the overhead and

prorated to all customers. We reviewed all items involved as evidenced by Memorandum EPD-7101-59 dated 20 October 1959 (copy attached), and all items possible were shifted from the direct to indirect category.

4. In comparing proposals by two competitors with approved systems if the indirect expense of one is less than the other, the only answer is that one can perform the work cheaper in this area in the same way one contractor requires less hours or lower priced personnel to accomplish the direct labor required.

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Chief, Contracts Branch, EPD

ATTACHMENT

Memo dtd 20 Oct.'59

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